



COMMISSION NEWS

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PHOENIX MAN GUILTY IN \$23,000,000 PONZI SCHEME

PHOENIX, AZ – Arizona Corporation Commission Chairman Jim Irvin and Arizona Attorney General Grant Woods announced today, September 4, 1998, that Charles Thomas Brown, age 66, of Phoenix, d/b/a Preferred Trust Company ("Preferred Trust"), an Arizona sole proprietorship, has pled guilty to one count of Fraudulent Schemes and Artifices and one count of Theft, both class two felonies, for operating a "Ponzi" scheme involving over \$23,000,000 in losses and 300 investors/victims. Brown also conducted business through Sun West Investments, Inc. ("SWI"), a dissolved Arizona corporation, where Brown was the President, Vice President, Treasurer, and Director of SWI.

From the mid-1980's, Brown operated a Ponzi scheme to defraud investors. Brown, working under the names of Preferred Trust and SWI, claimed that investment funds were used to finance loans for small companies that were unable to get a business loan from traditional lending institutions. In fact, there is no evidence that Brown financed any small companies or that any underlying business activity existed.

According to Commissioner-Chairman Irvin, "Brown stole investor funds to use for his personal benefit, repay other investors, and pay business expenses incurred to perpetuate the Ponzi scheme. As a result, the returns paid to earlier investors were not paid from the profits received by Brown's alleged financing of small company loans, but were instead paid from funds collected from later investors, a classic Ponzi."

Brown was unable to meet his obligations to later investors without bringing new investors into his scheme. Many of the victims became personal friends with Brown and completely trusted him as their investment advisor and to safe guard their money.

Brown issued investors six (6) month promissory notes that were to earn a return between eight percent (8%) and eighteen percent (18%). At the end of a six (6) month term, the promissory notes automatically "rolled over" for another six (6) month term unless the investor contacted Brown and

requested that his investment be paid back. In some cases, Brown agreed to call the investor at the end of the six (6) month term to discuss the investment before the promissory note rolled over into a new six (6) month term. If the investor did not request his investment funds back, Brown sent the investor a new promissory note that "supersede[d] and cancel[ed]" the previous promissory note.

Commissioner Renz Jennings noted, "This matter underscores the importance of investor vigilance. Such Ponzi schemes run by smooth con artists can get far down the road before they collapse. Investors will typically get next to nothing back. The message, once again, is unless you are a highly sophisticated investor, you should avoid outside the mainstream investment 'opportunities' like the plague." Sentencing for Mr. Brown is scheduled for November 6, 1998.

The guilty pleas by Brown occurred before Maricopa County Superior Court, presiding Judge Roger Kaufman. Brown could receive a prison sentence of up to 14 years for Fraud Schemes and Artifices and up to 12.5 years for Theft.

This plea agreement follows a permanent cease and desist order issued by the Arizona Corporation Commission against Brown, Preferred Trust, and SWI on November 25, 1997.